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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman

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BRENDA BURNS

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2014 DEC 15 AM 9 16

IN THE MATTER OF THE APPLICATION
OF TUCSON ELECTRIC POWER
COMPANY FOR APPROVAL OF ITS
2014 ENERGY EFFICIENCY
IMPLEMENTATION PLAN

DOCKET NO. E-01933A-13-0183

**SWEEP COMMENTS ON THE
RECOMMENDED ORDER AND
PROPOSED AMENDMENTS**

COMMENTS OF THE SOUTHWEST ENERGY EFFICIENCY PROJECT

The Southwest Energy Efficiency Project ("SWEEP") appreciates the opportunity to submit these comments on Tucson Electric Power's ("TEP") application for approval of its 2014 Demand Side Management Implementation Plan ("DSM Plan"), which now is being considered as its 2015 Implementation Plan. SWEEP also comments on the exceptions filed by TEP on December 12, 2014, including TEP's proposed amendment (see TEP Exhibit-C).¹

SWEEP congratulates TEP for its successful energy efficiency (EE) programs. In 2013 its DSM programs delivered energy savings equivalent to 1.91% of retail sales – placing TEP among the top electric utilities in the nation with respect to this metric. This achievement is significant because TEP has not had any new business programs or measures approved since 2008 and no residential programs or measures approved since 2010. It also underscores the ample EE opportunities and "low hanging fruit" available in TEP's service territory.

Arizona Corporation Commission

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¹ Tucson Electric Power Company, "Tucson Electric Power Company's Exceptions to Staff's Proposed Order," <http://images.edocket.azcc.gov/docketpdf/0000158671.pdf>

I. SWEEP supports TEP's filing dated December 12, 2014, including TEP's proposed amendment² to enable TEP to offer new cost-effective EE programs and measures without increasing its budget or its DSM surcharge, and to continue the implementation of four existing measures that are cost-effective when the analysis is based on actual field data.³ Staff found these new and four existing opportunities to be cost-effective. These opportunities include measures and programs that other Arizona utilities are successfully implementing.

SWEEP supports TEP's exceptions, including TEP's proposed amendment (see TEP Exhibit-C).⁴ TEP's exceptions and proposed amendment are designed to support cost-effective programs and measures that respond flexibly to changing customer demand, evolving marketing conditions, and emerging technologies.

Specifically, TEP's proposed amendment would enable TEP to offer new EE programs and measures, plus continue four existing measures that were in question, that:

- 1) Commission Staff reviewed and found to be cost-effective using Staff's cost effectiveness model, including new measures plus four existing duct sealing measures that initially were found by Staff not to be cost-effective but subsequently were found to be cost-effective by Staff when data based on actual field experience were used;⁵
- 2) TEP found to be cost-effective based on the avoided cost of generation in its 2014 Integrated Resource Plan;
- 3) Are delivering cost-effective savings for other Arizona utilities – including Salt River Project and Arizona Public Service Company (APS);
- 4) Would NOT require an increase in TEP's DSM Plan Budget or DSM Surcharge; and
- 5) Would provide TEP businesses and residential customers with more options and tools to reduce energy bills and cut total energy costs for TEP's service territory.

² See Exhibit-C, Tucson Electric Power Company, "Tucson Electric Power Company's Exceptions to Staff's Proposed Order," <http://images.edocket.azcc.gov/docketpdf/0000158671.pdf>

³ As communicated by Staff in a phone conversation with Jeff Schlegel.

⁴ See: <http://images.edocket.azcc.gov/docketpdf/0000151551.pdf>

⁵ As communicated by Staff in a phone conversation with Jeff Schlegel.

II. Any waiver approved by the Commission should be for the period of the Implementation Plan being reviewed and considered by the Commission, and should not be for a longer period.

In its DSM Plan filing, TEP requested a waiver from the Commission's 2014 EE Standard stating:

"The Company requests a waiver from the 2014 EE Standard in accordance with A.A.C. R14-2-24 19(B)" [emphasis added].⁶

SWEEP is concerned that the language in Staff's Recommended Opinion and Order (see page 34 of the Staff Report and page 41 of the Staff Recommend Order) would waive the EE Standard requirements through 2020, which is far beyond the time period TEP requested. Notably, this treatment is inconsistent with the Commission's decision on UNS Electric's last DSM plan, in which the Commission approved a waiver for 2013 and 2014 only — in accordance with UNS Electric's request.⁷

SWEEP acknowledges that achieving the 2014 and 2015 Standards may be difficult for TEP to achieve because of the timing of the approval of this Implementation Plan and the fact that TEP has not had any new measures or programs approved in several years. However, we believe it is inappropriate to grant a waiver for the entirety of the Standard, as it would limit future Commission's consideration of new emerging technologies and strategies that deliver cost-effective energy savings for customers. SWEEP instead recommends that the Commission approve a waiver request for 2014 and 2015 only, and consider future waiver requests as part of the evaluation and approval of future DSM plans.

SWEEP has prepared an amendment attached as SWEEP Exhibit-1 that reflects these comments.

III. SWEEP has three major concerns about TEP's proposed Utility Sector Improvement programs. The Commission should address these concerns by approving SWEEP's proposed amendment included as SWEEP Exhibit-2.

1) Commission Staff has not evaluated TEP's Generation and Facilities Improvement program or the measures that would be implemented under this program for cost effectiveness. As such, this program has not demonstrated cost effectiveness and therefore should not be approved by the Commission.

In the Commission's decision on APS' 2013 DSM Plan, the Commission discussed whether or not cost-effective energy savings from improvements to the Company's facilities and generation systems could count toward the achievement of the EE Standard. The Commission was clear that only cost effective energy savings proposed and approved through the implementation plan process would be considered:

⁶ See "2014 Implementation Plan Executive Summary," Tucson Electric Power, Tucson Electric Power 2014 Energy Efficiency Implementation Plan, <http://images.edocket.azcc.gov/docketpdf/0000145659.pdf>

⁷ See Page 17, Lines 9-10, Arizona Corporation Commission Decision No. 74262

“IT IS FURTHER ORDERED that Arizona Public Service Company may count cost effective energy savings from improvements to Arizona Public Service Company facilities and generation systems toward compliance with the energy efficiency standard. Specific programs including anticipated costs and energy savings must be proposed and approved through the implementation plan process. Any energy savings from improvements to Arizona Public Service Company facilities and generation systems shall not increase the LFCR, enable Arizona Public Service Company to qualify for a performance incentive, or otherwise increase the performance incentive amount” [emphasis added].⁸

Notably, TEP’s DSM Plan proposes two utility sector improvement programs:

- 1) A Conservation Voltage Reduction (CVR) program; and
- 2) A Generation and Facilities Improvement Program.

While both of these programs have been recommended for approval by Commission Staff, only one of these programs and its associated measures – the CVR program – have been evaluated for and found to be cost-effective by Staff. Indeed, “Appendix 1-B (Proposed)” in the Commission Staff report provides no cost-effectiveness information for the “Generation and Facilities Improvement Program” or the program’s measures (see below). As such, **SWEEP recommends that the Commission approve the CVR program only (it is cost-effective) but not approve the Generation and Facilities Improvement Program because it has not demonstrated cost-effectiveness.**

Staff’s Cost Effectiveness Evaluation of TEP’s Utility Sector Improvement Programs and Measures [Staff Report, “Appendix 1-B (Proposed)”]

Utility Sector Improvement Program	Measure	Benefit-to-Cost Ratio
Conservation Voltage Reduction	DREX 34	3.74
Conservation Voltage Reduction	DREX 35	2.30
Conservation Voltage Reduction	DREX 36	3.93
Conservation Voltage Reduction	DREX 44	3.78
Generation and Facilities Improvement Program	<i>Not provided</i>	<i>Not provided</i>

2) The Commission should be clear that utility sector improvement programs cannot increase TEP’s LFCR, enable TEP to qualify for a performance incentive, or otherwise increase TEP’s performance incentive amount.

The Commission’s decision on APS’s 2013 DSM Plan was clear that improvements to the Company’s facilities and generation systems could not increase the LFCR, enable Arizona Public Service Company to qualify for a performance incentive, or otherwise increase the performance incentive amount (see

⁸ See Page 42, beginning at line 22, Arizona Corporation Commission Decision No. 74406

above).⁹ While this is discussed in the Commission Staff report on TEP's DSM Plan, SWEEP is concerned that this language has not been specifically proposed or included in the Commission orders in the Staff Recommended Order.

3) The Commission should be clear about what the approval of Utility Sector Improvement programs may mean for prudency review during a rate case.

SWEEP has concerns that the approval of utility sector improvement programs as part of TEP's DSM Plan could be used as justification by TEP for prudency in its next rate case. The Commission should clarify its position on this issue.

SWEEP has prepared an amendment attached as SWEEP Exhibit-2 that reflects these comments.

IV. SWEEP Continues to Support Effective EE Financing Programs as a Vehicle to Drive EE Investment and to Lower Ratepayer Costs

SWEEP continues to support financing programs as an effective vehicle to enable customer pursuit of EE at lower ratepayer costs. Indeed, financing programs have been effective in other states and are helping to support the market transformation of EE programs. Notably, experience in other states has shown that the *utilities with the most successful financing programs are the ones for which regulators have set goals around effective program delivery*. For example, it is critical to streamline the delivery of financing with EE program delivery and to offer marketing and education to contractors. Without these programmatic elements, these programs have sometimes floundered.

SWEEP was encouraged by the Pima County Interfaith Council's efforts to develop a residential financing program for inclusion within TEP's DSM portfolio.¹⁰ The Interfaith Council voluntarily spent two years to develop this program – at no financial benefit to their organization – and was able to identify an Arizona-based lender.¹¹ SWEEP was dismayed to learn that TEP withdrew this program without notifying or working with the Interfaith Council on a possible solution.¹²

Based on informal conversations with contractors in TEP's service territory, SWEEP also understands that not all contractors (especially smaller contractors) have access to financing; the availability of financing to cover comprehensive projects can be limited; some consumers are being denied access; and that consumers do not have a streamlined, consistent experience. This leads SWEEP to believe that TEP contractors and consumers could benefit from more formalized financing offerings that are delivered seamlessly in conjunction with TEP's programs.

SWEEP has spoken with TEP's DSM Staff about some of these concerns and plans to attend a meeting on Monday, December 22nd, with TEP, the Interfaith Council, and other stakeholders to discuss possible next steps. **SWEEP recommends that TEP report back to the Commission in the first quarter of 2015 to provide an update on these discussions and recommend solutions for Commission consideration.**

⁹ See Page 42, beginning at line 22, Arizona Corporation Commission Decision No. 74406

¹⁰ Pima County Interfaith Council, "RE: Tucson Electric Power's 2014 Energy Efficiency Implementation Plan, E-01933A-13-0183," <http://images.edocket.azcc.gov/docketpdf/0000158608.pdf>

¹¹ Ibid.

¹² Ibid.

SWEEP has prepared an amendment attached as SWEEP Exhibit-3 that reflects these comments.

V. For the Commission's Convenience SWEEP Has Attached Two Amendments Approved Unanimously for APS' DSM Plans

For the Commission's convenience, SWEEP has attached two amendments for TEP's DSM Plan with language that was first approved unanimously for APS' DSM Plans. These two amendments should also be adopted for TEP because approving them for TEP would result in consistent treatment on these two issues for TEP and APS. These amendments include:

1) An amendment that would enable TEP to reduce rebates amounts after noticing the Commission.

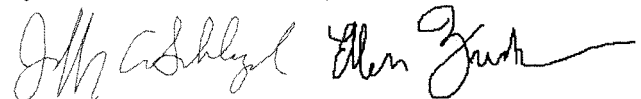
In some instances, TEP must receive Commission approval to reduce rebates. As a result, programs cannot flexibly respond to market changes, even when it would mean reducing costs for TEP ratepayers.

2) An amendment that includes the compromise language on the Freeport Exemption approved by the Commission for APS in November 2014.

This language includes the compromise language approved by the Commission on APS' 2015 DSM Plan.

SWEEP has prepared these amendments as attachments SWEEP Exhibit-4 and SWEEP Exhibit-5, respectively.

Respectfully submitted this 15th day of December 2014 by:



Jeff Schlegel & Ellen Zuckerman
Southwest Energy Efficiency Project

ORIGINAL and thirteen (13) copies filed this 15th day of December, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

SWEEP Exhibit-1

The proposed amendment would enable Commission evaluation of EE Rule or Standard waivers as new DSM Implementation Plans are reviewed and approved by the Commission, and new and emerging technologies are evaluated.

Page 41, Line 28, after “action.” INSERT:

However, we believe TEP should be granted a waiver of the EE Standard for 2014 and 2015 only, to reflect the time period of the Implementation Plan under review and consideration by the Commission.

Page 42, Line 11, after “Company” INSERT:

for 2014 and 2015

Page 42, Line 11, DELETE:

Until further order of the Commission

MAKE CONFORMING CHANGES

SWEEP Exhibit-2

The proposed amendment would:

- 1) Adopt for TEP the same language that the Commission approved in APS' 2014 DSM Plan for utility sector improvement programs.*
- 2) Ensure that savings from utility sector improvement programs cannot increase TEP's LFCR, enable TEP to qualify for a performance incentive, or otherwise increase TEP's performance incentive amount.*
- 3) Ensure that Commission approval of utility sector improvement programs does not justify prudence during future utility rate cases.*
- 4) Reject TEP's proposed Generation and Facilities Improvement Program, which was not demonstrated to be cost effective by Staff analysis.*

Page 35, Line 8, after "to count" INSERT:

cost effective

Page 35, Line 35, after "upgrades" INSERT:

proposed and approved through the implementation plan process

Page 36, Line 22:

However, Staff has not evaluated the Generation Improvement and Facilities program and its corresponding measures for cost effectiveness, and we do not recommend approval.

Page 42, DELETE Lines 12-15, and INSERT New Ordering Paragraph:

IT IS FURTHER ORDERED that Tucson Electric Power Company may count cost effective energy savings from improvements to Tucson Electric Power Company facilities and generation systems toward compliance with the energy efficiency standard. Specific programs including anticipated costs and energy savings must be proposed and approved through the implementation plan process. Any energy savings from improvements to Tucson Electric Power Company facilities and generation systems shall not increase the LFCR, enable Tucson Electric Power Company to qualify for a performance incentive, or otherwise increase the performance incentive amount.

Page 42, Line 16, INSERT New Ordering Paragraph:

IT IS FURTHER ORDERED that the Commission approval of improvements to Tucson Electric Power Company's facilities and generation systems as part of the DSM implementation plan process cannot be used as justification by the utility for prudence of the investments during future rate cases.

Page 45, Line 9 strike "be approved," and INSERT:

is not approved

Page 45, Line 9, DELETE:

But there be no recovery for this program through the DSM surcharge

MAKE CONFORMING CHANGES

SWEEP Exhibit-3

The proposed amendment would require TEP to report back to the Commission in the first quarter of 2015 to provide an update on stakeholder discussions on financing and recommend solutions for Commission consideration.

Page 3, Line 19, after “programs.” INSERT:

However, we understand that there is still significant interest in the Tucson community in more formalized financing offerings that are delivered seamlessly in conjunction with TEP’s programs. We believe TEP should work with stakeholders, including with the Pima County Interfaith Council, to explore and recommend solutions for Commission consideration in the first quarter of 2015.

Page 45, line 23 INSERT New Ordering Paragraph:

IT IS FURTHER ORDERED that Tucson Electric Power Company work in the first quarter of 2015 with stakeholders, including with the Pima County Interfaith Council, to explore and recommend solutions for Commission consideration on the formalization of financing offerings.

MAKE CONFORMING CHANGES

SWEEP Exhibit-4

The proposed amendment would enable TEP to reduce customer incentive levels after giving the Commission notice. The proposed amendment would support better management of program spending and programs that are more responsive to market conditions and customer demand.

Page 43, Line 9, INSERT New Ordering Paragraph:

“IT IS FURTHER ORDERED that Tucson Electric Power Company may, upon providing 30-day advance notice to the Commission, reduce incentive levels in order to more effectively manage program spending or respond to market conditions.”

MAKE CONFORMING CHANGES

SWEEP Exhibit-5

The proposed amendment would adopt for TEP the same language unanimously approved for APS regarding the proposed exemption of Freeport-McMoRan Copper and Gold.

Page 39, Line 24, INSERT New Finding of Fact:

However, we recommend that that Freeport's exemption shall be limited in that TEP must continue to obtain and report energy efficiency activities and savings from Freeport on an annual basis. Freeport shall provide an annual count of the number and horsepower of high efficient motors installed at the Sierrita Mine, and data on any energy efficiency measures/projects which are installed at the Sierrita mine, sufficient to enable the calculation of energy savings.

Page 43, DELETE Lines 22-26 and INSERT New Ordering Paragraphs:

IT IS FURTHER ORDERED that Freeport-McMoRan Copper and Gold's exemption shall be limited in that Tucson Electric Power Company must continue to obtain and report energy efficiency activities and savings from Freeport-McMoRan Copper and Gold, Inc. on an annual basis. Freeport-McMoRan Copper and Gold, Inc. shall provide an annual count of the number and horsepower of high efficient motors installed at the Sierrita Mine, and data on any energy efficiency measures/projects which are installed at the Sierrita mine, sufficient to enable the calculation of energy savings. Freeport's exemption shall be contingent upon it providing this information to Tucson Electric Power Company at a time and manner such that it may be included as part of the annual Tucson Electric Power Company DSM report filed by March 1 of each year.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall not count Freeport-McMoRan Copper and Gold's energy savings in determining the Lost Fixed Cost Recovery amount, nor enable Tucson Electric Power Company to qualify for a performance incentive or otherwise increase Tucson Electric Power Company's performance incentive amount.

MAKE CONFORMING CHANGES